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# The World Bank needs deep reforms to reflect a changing world order

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The sudden resignation of World Bank President Jim Yong Kim has rekindled debate about leadership succession and the mission of the international financial institution.



Former Nigerian finance minister Ngozi Okonjo-Iweala is eminently qualified to lead the World Bank.

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US president Donald Trump has nominated his preferred candidate, David Malpass, who is known for his sharp criticisms of the World Bank during his tenure as under-Secretary for International Affairs at the Treasury Department. Malpass is also known for his hostile attitude towards China and for being an advocate of protectionist policies.

By nominating Malpass, Trump continues the tradition of having an American lead the multilateral body. This is an outmoded tradition that does not take into account significant changes in the global distribution of power.

In particular, there's been the notable rise of emerging countries such as China. Given the substantial changes in the profiles of major economic actors, there is a need to rethink the purpose and focus of the World Bank and other multilateral institutions.

The World Bank has an important role to play in the developing world. It could do much more if the US relaxed its grip on the institution. The leadership succession debate should not be merely fixated on personalities. Instead, it should be used to create space for reflection on the purpose of the multilateral body, the substantive role it should play in the future, the need to strengthen inclusive multilateralism, and the actions needed to bolster the position of emerging economies and developing countries.

Deep reforms of the World Bank are necessary as part of rethinking the current world order, and giving rising powers and developing countries a meaningful voice in this institution.

## The history

The World Bank was established in 1944. It was an initiative of the US, supported by other Western powers. It was created

to lead post-World War II reconstruction and development in Europe, a role that it later played in developing countries.

Historically, the World Bank has been led by an American, while the International Monetary Fund has been headed by a European. This is the function of a "gentlemen's agreement" forged by Western powers in the post-war period.

The agreement has prevented candidates from other world regions taking leadership roles. In a previous race for leadership of the World Bank, for example, the former Minister of Finance in Nigeria Ngozi Okonjo-Iweala wasn't selected. This was despite her superior credentials in the highest government echelons, in the World Bank where she previously held senior posts, and in the wider development community.

Okonjo-Iweala vied for the position with Kim, former President Barack Obama's nominee. Following Kim's nomination and appointment, concerns were raised about his qualifications and suitability for the job. It made a mockery of the World Bank's "commitment to an open, merit-based and transparent selection process". The selection process is anything but merit-based.

The US has used its leadership of the World Bank to project its power and interests. Although the attitude and positioning of the World Bank has changed over the years, the institution still carries the will of the US. In recent years, the World Bank has gone through an existential crisis, with morale at an all-time low under Kim's stewardship.

## Redefining its role

The World Bank has also proved unable to redefine its purpose as a lending and developmental institution in light of the emergence of non-traditional lenders such as China. Four years ago Beijing established its own infrastructure bank, the Asia Infrastructure Investment Bank (AIIB). It is a multilateral development bank that focuses on infrastructure financing, exactly the sort of work the World Bank does.

Threatened by China's foray into infrastructure financing, the US has attempted to persuade its allies – including Australia, Germany, France, and Britain – not to participate in the AIIB. Many defied the US out of self-interest and in recognition of China's growing global economic clout.

The US seems to be strengthening its sway over the World Bank. It appears to be intent on turning the institution into a geopolitical trench to undercut China's rising global influence. For example, the Trump administration has expressed misgivings about the World Bank providing loans to China.

America's blinkered approach overlooks the fact that the World Bank's involvement in China provides the US with a channel for policy influence in that country. Potentially, this could keep China entrenched as a key stakeholder, rather than as a spoiler, within the liberal world order.

Antagonising China could backfire and push the country away from the US-led world order. It could result in China creating its own set of alliances and institutions in ways reminiscent of the Cold War tensions between the US and Russia in the

aftermath of World War 2.

If the US was a confident power and serious about its commitment to strengthen multilateral institutions, it would not treat organisations such as the World Bank as if they were an extension of its government agencies.

## Urgent need for action

Failure to adapt to the changing world order could see rising powers going their own way. Such a development would signify the emergence of multipolarity without multilateralism, and create a climate of conflicting interests and values among a diverse group of countries.

To ensure this doesn't happen, reform of institutions like the World Bank is necessary. Such a process should begin with having a head of the body who doesn't come from the US and who is selected on merit. That would signal an important departure from the past.

The World Bank needs a transformative leader who can refocus the institution to work with new generation multilateral development banks, development finance institutions, and other state-backed financing instruments in developing countries. All this is necessary to tackle long-standing infrastructure and other development challenges in the developing world. Malpass belongs to the old order and is ill-equipped to undertake such a task.

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